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TO RUEHC/SECSTATE WASHDC PRIORITY 4299
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RUEHEG/AMEMBASSY CAIRO PRIORITY 1538
RUEHLO/AMEMBASSY LONDON PRIORITY 1404
RUEHNK/AMEMBASSY NOUAKCHOTT PRIORITY 0940
RUEHFR/AMEMBASSY PARIS PRIORITY 1876
RUEHRB/AMEMBASSY RABAT PRIORITY 8476
RUEHTRO/AMEMBASSY TRIPOLI PRIORITY 0175
RUEHCL/AMCONSUL CASABLANCA PRIORITY 4169
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C O N F I D E N T I A L SECTION 01 OF 02 TUNIS 000050

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STATE FOR NEA/MAG (HARRIS)
STATE PASS USTR (BURKHEAD) AND USAID (MCCLOUD)
USDOC FOR ITA/MAC/ONE (NATHAN MASON), ADVOCACY CTR
(REITZE), AND CLDP (TEJTEL AND MCMANUS)
CASABLANCA FOR FCS (ORTIZ)
CAIRO FOR FINANCIAL ATTACHE (SEVERENS)
LONDON AND PARIS FOR NEA WATCHER

E.O. 12958: DECL: 01/16/2018

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [TS](#)

SUBJECT: IMF PRAISES TUNISIAN ECONOMIC MANAGEMENT

Classified By: Ambassador Robert F. Godec for Reasons 1.4 (b) and (d).

Summary

¶1. (SBU) During a January 14 meeting with the Ambassador, International Monetary Fund (IMF) Mission Director Abdelhak Senhadji praised GOT economic management and characterized Tunisia's 2007 GDP growth of 6.3 percent as "remarkable" in the current international economic climate. Senhadji told the Ambassador that the IMF continues to recommend reductions in external debt and strengthening of the banking sector. Noting that sometimes the IMF would like to see faster reform, he acknowledged that although the GOT takes its time, it recognizes the necessity of continued liberalization. End Summary.

Right Bureaucrats in the Right Places

¶2. (SBU) IMF Mission Director Abdelhak Senhadji had high praise for GOT economic management, stating that Tunisia had the "right bureaucrats in the right places." He credited good macroeconomic management, social cohesion and political stability for Tunisia's sustained long-term growth. Senhadji added that Tunisia's 6.3 percent growth during 2007 was "remarkable" given the unfavorable international economic situation -- in particular, high oil and food commodity prices.

ut Room for Improvement...

¶3. (SBU) Senhadji noted that while overall investment levels were solid, domestic private investment rates have been stagnant over the past several years and were lower than one would expect to see. However, he highlighted that private sector investment takes time to grow in developing countries

and that overall, FDI is more diversified than it appears at first glance. While it may seem that FDI is only being allocated to real estate, Senhadji emphasized that FDI in infrastructure projects would help create jobs and spur growth. Nevertheless, he told the Ambassador the IMF continued to recommend reductions in the level of external debt and strengthening of the banking sector, both of which are critical for eventual liberalization of the capital account.

Slow, But Steady

14. (SBU Concurring with an oft-heard comment on the pace of Tunisian reform, Senhadji stated that "sometimes we would like faster movement." He added that the GOT is "cautious" and compared the GOT to a mutual fund manager that makes safe investments that yield dividends over the long-term. Senhadji noted that unlike many other countries, the IMF lacked the leverage of Fund lending that might be used to encourage certain reforms. He acknowledged that certain reforms, such as the elimination of food subsidies, were likely to be detrimental if one too quickly. He recounted that one senior GOT official had stated that eliminating subsidies could jeopardize everything with rioting in the streets. According to Senhadji, ultimately the GOT recognizes the imperative of increased integration with the global economy. He emphasized that the GOT "realizes that the train is moving and they are about to be left behind."

Comment

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15. (C) We agree that Tunisia should receive its due for its solid and steady economic growth. Tunisia really is a "country that works," in many respects. Yet, for all its success, Tunisians themselves are not feeling bullish about their prospects. Tunisian consumers continue to complain about rising prices and low purchasing power. Additionally, Tunisia's unemployment rate remains high (officially 13.9 percent) and is not dropping. While it is true that certain reforms, such as eliminating food subsidies, may have a high short-term cost, there are many other simple and sensible reforms -- eliminating prior authorization for property sales, for example -- with little to no downside. A little caution goes a long way; Tunisia should be commended, but it must do more and do it faster. End Comment.

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